

# Workers' comp system cost increases during past three years

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After a period of stability in the late 1990s, trends in the Minnesota workers' compensation system have begun to change:

- The claim rate, which had been falling gradually, showed a more pronounced decline from 2000 to 2003.
- Indemnity and medical benefits per claim are up sharply (adjusting for wage growth). Because of the falling claim rate, benefits have increased more gently as a percentage of payroll.
- The increase in indemnity benefits per claim is due partly to increasing benefit duration and partly to increased stipulated benefit amounts.
- Participation in vocational rehabilitation, which had been increasing since 1997, showed a heightened rate of increase from 2000 to 2003.
- The dispute rate increased sharply from 1997 to 2003.
- Total workers' compensation system cost rose substantially relative to payroll from 2000 to 2003, after several years of decline.

These and other findings are presented in the Department of Labor and Industry's (DLI) recently released [\*Minnesota Workers' Compensation System Report, 2003\*](#).<sup>1</sup> The report provides a fuller discussion of the findings than is presented here. A more detailed look at recent trends follows.

## Claims and costs

- Claim rates declined every year from 1997 to 2003, with more rapid decline in the last three years of that period. The overall paid-claim rate for 2003 was down 28 percent from 1997.<sup>2</sup> (See Figure 1, next page.)
- The total cost of Minnesota's workers' compensation system continued increasing relative to payroll from its low-point in **System cost**, continues ...



## System cost, continued ...

2000. From 2000 to 2003, cost rose from \$1.34 per \$100 of payroll to \$1.74, a 30-percent increase.<sup>3</sup> (See Figure 2)

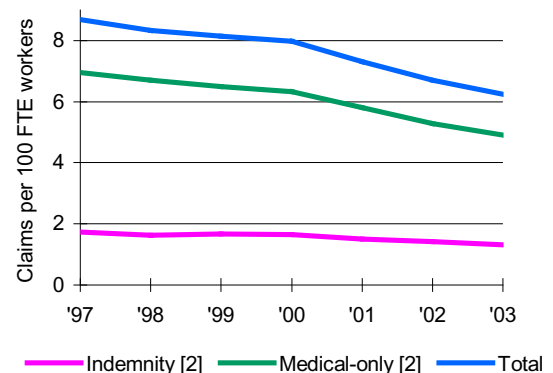
- Adjusted for average wage growth, average indemnity benefits per insured claim rose 44 percent from 1997 to 2002; average medical benefits per claim rose 52 percent. (See Figure 3, next page.)
- Relative to payroll, indemnity benefits rose 2 percent from 1997 to 2003; medical benefits rose 23 percent. Benefits rose less rapidly relative to payroll than per claim because of the falling claim rate. In 2003, indemnity and medical benefits amounted to \$.48 and \$.61 per \$100 of payroll, respectively.
- The average duration of total disability benefits (temporary total and permanent total) increased from 8.9 weeks in 1997 to 12.0 weeks in 2003, a 35-percent increase.

## Medical cost detail

According to data from a large insurer, after adjusting for average wage growth and for changes in age, gender and type of injury:

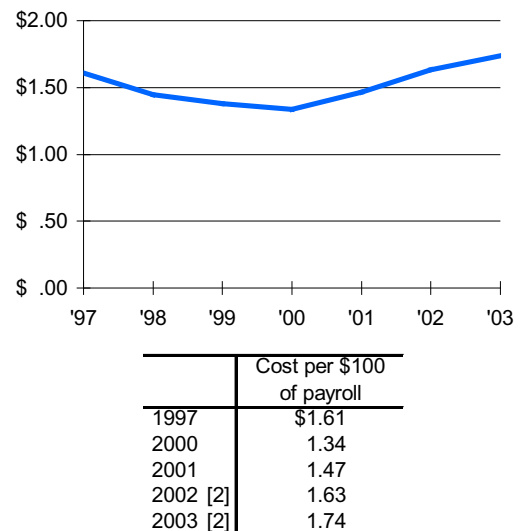
- From injury year 1997 to 2003, medical cost per claim grew fastest for drugs (102 percent), outpatient hospital facility services (75 percent) and radiology (44 percent).
- Of the total increase in medical cost per claim from 1997 to 2003, outpatient hospital facility services accounted for 28 percent; drugs, 17 percent; and radiology, 15 percent.<sup>4</sup> (See Figure 4, page 5.)
- Within the radiology and surgery and anesthesia service groups, a majority of the cost increase resulted from a shift toward more expensive types of procedures.

**Figure 1**  
Paid claims per 100 full-time-equivalent workers, injury years 1997-2003 [1]



1. Developed statistics from DLI data and other sources (see note 2 in text).
2. Indemnity claims are claims with indemnity benefits — benefits that compensate the injured worker or survivors for wage loss, permanent functional impairment, or death from the injury. The remainder of claims — "medical-only" claims — have only medical benefits.

**Figure 2**  
System cost per \$100 of payroll, 1997-2003 [1]



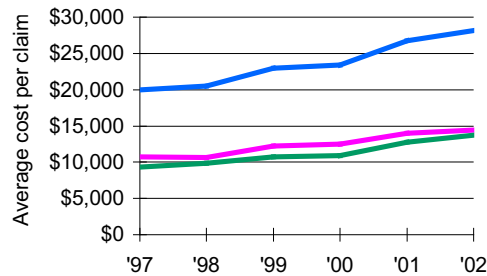
1. Data from several sources. Includes insured and self-insured employers.
2. Preliminary.

## System cost, continued ...

**Figure 3**

**Average indemnity and medical benefits per insured claim, adjusted for wage growth, policy years 1997-2002 [1]**

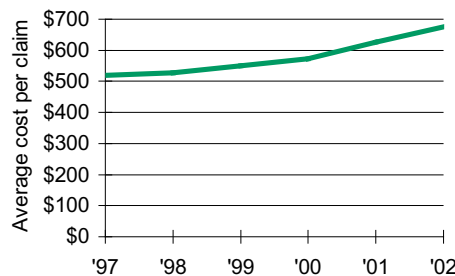
### A: Indemnity claims



Policy year	Indemnity benefits	Medical benefits	Total benefits
1997	\$10,700	\$9,300	\$20,000
2000	12,500	10,900	23,400
2001	14,000	12,700	26,800
2002 (p)	14,500	13,700	28,200

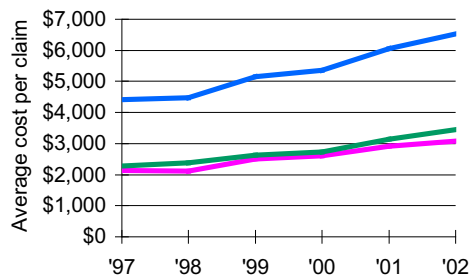
Indemnity Medical Total

### B: Medical-only claims



Policy year	Medical benefits	Total benefits
1997	\$519	\$519
2000	574	574
2001	625	625
2002 (p)	676	676

### C: All claims



Policy year	Indemnity benefits	Medical benefits	Total benefits
1997	\$2,140	\$2,270	\$4,410
2000	2,610	2,740	5,350
2001	2,920	3,140	6,060
2002 (p)	3,080	3,450	6,530

Indemnity Medical Total

1. Developed statistics from MWCIA data (see note 2 in text). Includes the voluntary market and Assigned Risk Plan; excludes self-insured employers. Benefits are adjusted for average wage growth between the respective year and 2003. 2002 is the most recent year available.

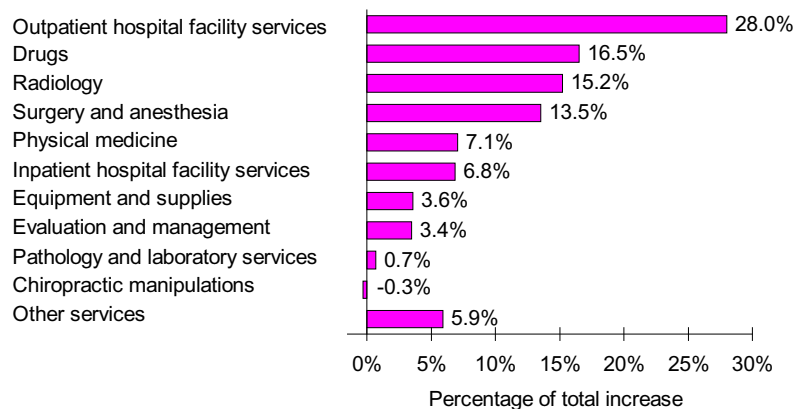
p = preliminary

## Vocational rehabilitation

- Participation in vocational rehabilitation (VR) rose from 15 percent of paid indemnity claimants in 1997 to 23 percent for 2003. (See Figure 5, next page.)
- The total cost of VR services for 2003, \$39 million, was about 2.7 percent of total workers' compensation system cost.
- Adjusted for average wage growth, the average cost of VR services was about the same in 2003 as in 1998. The average cost per VR plan for 2003 was \$6,200.
- In 2003, about 66 percent of VR participants had a job at the time of plan closure, down from 74 percent for 1998.

System cost, continues ...

**Figure 4**  
Contributions of service groups to overall change  
in total medical cost per claim  
between injury years 1997 and 2003 [1]

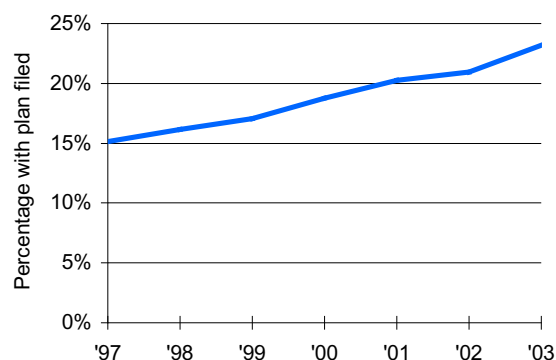


1. Developed statistics (see note 2 in text) computed from data from a large insurer with fixed weights for gender, age and type of injury. Costs are adjusted for average wage growth between 1997 and 2003.

## Disputes and dispute resolution

- The overall dispute rate increased from 15.0 percent of filed indemnity claims in 1997 to 18.0 percent in 2003, a 20-percent increase.<sup>5</sup> (See Figure 6, next page.)
- The rate of denial of filed indemnity claims remained between 14.4 and 16.6 percent from 1997 to 2003. The denial rate fell from 1997 to 2000 and rose from 2000 to 2003.
- The percentage of paid indemnity claims with claimant attorney fees rose from 13.8 percent in 1998 to 16.5 percent in 2003, a 20 percent increase. This parallels the increase in the dispute rate.
- From 1997 to 2003, claimant legal costs rose 5 percent relative to total benefits (indemnity, medical, and vocational rehabilitation) while defense legal costs rose 16 percent. In 2003, total claimant and defense legal costs were about \$106 million, roughly 12 percent of total benefits and 7 percent of total workers' compensation system cost.

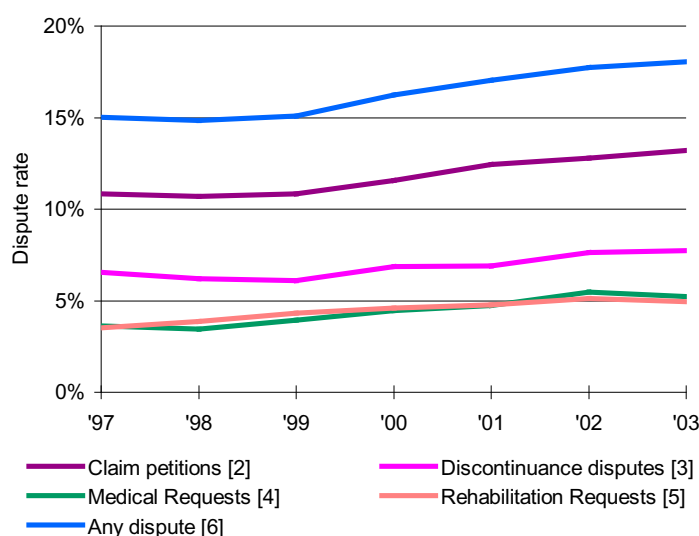
**Figure 5**  
Percentage of paid indemnity claims with a  
VR plan filed, injury years 1997-2003 [1]



Injury year	Percentage with plan
1997	15.1%
2000	18.8
2001	20.3
2002	21.0
2003	23.2

1. Data from DLI. Statistics are developed (see note 2 in text).

**Figure 6**  
**Incidence of disputes, injury years 1997-2003 [1]**



Injury year	Dispute rate				
	Claim petitions [2]	Discontinuance disputes [3]	Medical Requests [4]	Rehabilitation Requests [5]	Any dispute [6]
1997	10.8%	6.5%	3.6%	3.5%	15.0%
1999	10.8	6.1	3.9	4.3	15.1
2000	11.6	6.9	4.4	4.6	16.2
2001	12.4	6.9	4.7	4.8	17.0
2002	12.8	7.6	5.5	5.1	17.7
2003	13.2	7.8	5.2	4.9	18.0

1. Developed statistics from DLI data (see note 2 in text).
2. Percentage of filed indemnity claims with claim petitions. (Filed indemnity claims are claims for indemnity benefits, whether ultimately paid or not.)
3. Percentage of paid wage-loss claims with discontinuance disputes.
4. Percentage of paid indemnity claims with *Medical Requests*.
5. Percentage of paid indemnity claims with *Rehabilitation Requests*.
6. Percentage of filed indemnity claims with any disputes.

<sup>1</sup> DLI Research and Statistics, January 2005. The report is available online at [www.doli.state.mn.us/pdf/wcfact03.pdf](http://www.doli.state.mn.us/pdf/wcfact03.pdf) or by calling (651) 284-5025. Information in the report is available in alternative formats by calling 1-800-342-5354 or TTY at (651) 297-4198.

<sup>2</sup> Several statistics in this article are presented by year of injury. Some statistics (those in Figure 3) are by policy year, meaning claims and costs are tied to the year in which the insurance policy covering the injury took effect. An issue with such data is that the actual numbers for more recent years are not mature, because of long claims and reporting lags. All injury year and policy year data in this article is “developed,” or projected, to a uniform maturity, so the statistics are comparable over time. The technique uses “development factors” based on observed data for older claims.

<sup>3</sup> The system cost numbers for years just prior to 2003 are revised from earlier publications. One reason is that reporting entities sometimes revise previously reported data. Another reason is that some components of the cost figure are initially projected because of lags in data availability, but are then updated when actual data becomes available.

<sup>4</sup> Since outpatient hospital facility services had a larger total cost than drugs to begin with, a smaller percent increase produced a larger absolute increase and, thus, a larger share of the total medical cost increase.

<sup>5</sup> A “percent increase” means the proportionate increase in the initial percentage, not the number of percentage points of increase. For example, an increase from 10 percent to 15 percent is a 50-percent increase.